

# Legislative Audit Division

State of Montana



Report to the Legislature

March 2001

## Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2000

## Office of the Secretary of State

This report contains five recommendations related to:

- ▶ Payment of accumulated compensatory time.
- ▶ Compliance with state deposit laws.
- ▶ Establishing fees commensurate with costs in accordance with state law.
- ▶ Capitalization of long-term assets.

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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel  
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
James Gillett, Financial-Compliance Audit

March 2001

To the Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Secretary of State for the two fiscal years ended June 30, 2000. Included in this report are recommendations concerning payment of accumulated compensation time, compliance with state deposit laws, fees commensurate with costs, and recording of long-term assets. The office's written response to the audit recommendations is included in the back of the audit report.

We thank the Secretary of State and his staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat  
Legislative Auditor



# **Legislative Audit Division**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2000**

## **Office of the Secretary of State**

Members of the audit staff involved in this audit were John Fine, Emy Neuman-Javornik, Sonia Powell and Joyce Weber.



## Table of Contents

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|  |  |           |
|--|--|-----------|
|  | Elected and Administrative Officials . . . . .   | Page ii   |
|  | Report Summary . . . . .   | Page iii  |
| <b>Introduction</b>  | Introduction . . . . .   | Page 1    |
|  | Background . . . . .   | Page 1    |
| <b>Prior Audit<br/>Recommendations</b>                                     | Prior Audit Recommendations . . . . .  | Page 3    |
| <b>Findings and<br/>Recommendations</b>                                    | Deposit of Filing Fees . . . . .   | Page 5    |
|  | Fees Commensurate with Costs . . . . .   | Page 6    |
|  | Compensatory Time . . . . .  | Page 7    |
|  | Payroll Processing . . . . .   | Page 7    |
|  | Accounting Issues . . . . .  | Page 8    |
| <b>Independent Auditor's<br/>Report and Office<br/>Financial Schedules</b> | Independent Auditor's Report . . . . .   | Page A-3  |
|  | Schedule of Changes in Fund Balances & Property Held<br>in Trust For the Fiscal Year Ended June 30, 2000 . . . . . | Page A-5  |
|  | Schedule of Changes in Fund Balances<br>For the Fiscal Year Ended June 30, 1999 . . . . .                          | Page A-6  |
|  | Schedule of Total Revenues & Transfers-In<br>For the Fiscal Year Ended June 30, 2000 . . . . .                     | Page A-7  |
|  | Schedule of Total Revenues & Transfers-In<br>For the Fiscal Year Ended June 30, 1999 . . . . .                     | Page A-8  |
|  | Schedule of Total Expenditures & Transfers-Out<br>For the Fiscal Year Ended June 30, 2000 . . . . .                | Page A-9  |
|  | Schedule of Total Expenditures & Transfers-Out<br>For the Fiscal Year Ended June 30, 1999 . . . . .                | Page A-10 |
|  | Notes to the Financial Schedules . . . . .   | Page A-11 |
| <b>Office Response</b>   | Office of the Secretary of State . . . . .   | B-3       |

## **Elected and Administrative Officials**

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### **Office of the Secretary of State**

|                         |                                       |
|-------------------------|---------------------------------------|
| Bob Brown               | Secretary of State                    |
| Jason Thielman          | Chief Deputy                          |
| Janice Frankino-Doggett | Chief Legal Counsel                   |
| Pat Haffey              | Deputy for Business Services          |
| Kathy Lubke             | Deputy for Administrative Rules       |
| Elaine Graveley         | Deputy for Elections                  |
| Lynn Keller             | State Records Manager                 |
| Kitty Ryan              | Deputy for Management Services Bureau |

For additional information concerning the Office of the Secretary of State, contact Bob Brown, Secretary of State, at:

PO Box 202801  
Helena MT 59620-2801  
(406) 444-2034

e-mail: *bbrown@state.mt.us*



This financial-compliance audit report documents the results of our audit of the Secretary of State (office) for the two fiscal years ended June 30, 2000. We issued a qualified opinion on the financial schedules of the office for fiscal years 1998-1999 and 1999-2000. This means the reader should use caution when relying on the information presented and the supporting accounting records. This report contains five recommendations for improving office compliance with state laws and regulations.

The prior audit report contained four recommendations addressed to the office. The office partially implemented one and did not implement three of the recommendations. The recommendation partially implemented is discussed in recommendation #1 and the recommendations not implemented are discussed in recommendation #2 of this report.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

### Recommendation #1

We recommend the office:

- A. Deposit money into the state treasury in accordance with section 17-6-105, MCA; and

Office Response: Concur. See page B-3.

- B. Process documents within the time allowed by section 35-2-1109, MCA . . . . . Page 5

Office Response: Concur. See page B-3.

### Recommendation #2

We recommend the office:

- A. Implement procedures to determine costs associated with the services it provides.

Office Response: Concur. See page B-4.

## Report Summary

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- B. Establish fees commensurate with costs in accordance with state law . . . . . Page 6

Office Response: Concur. See page B-4.

### Recommendation #3

- We recommend the office comply with state rules and cease paying exempt employees for compensatory time balances upon termination . . . . . Page 7

Office Response: Concur. See page B-5.

### Recommendation #4

- We recommend the office comply with section 17-8-101, MCA, and post expenditure transactions when incurred . . . . . Page 8

Office Response: Concur. See page B-5.

### Recommendation #5

We recommend the office:

- A. Record all expenditure transactions by fiscal year end in accordance with state law; and

Office Response: Concur. See page B-5.

- B. Capitalize software assets as required by state accounting policy . . . . . Page 9

Office Response: Concur. See page B-5.

# Introduction

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## Introduction

We performed a financial-compliance audit of the Office of the Secretary of State (office) for the two fiscal years ended June 30, 2000. The audit objectives were to:

1. Determine office compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the office.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial schedules present fairly the results of operations of the office for the two fiscal years ended June 30, 2000.

This report contains five recommendations to the office. Areas of concern not having a significant effect on the successful operations of the office are not included in this report but have been discussed with management.

In accordance with section 17-8-101, MCA, we reviewed the Internal Service Fund fees, charges for services and fund equity balance. Based upon our review, the office is not in compliance with the law requiring fees to be commensurate with costs. As discussed on page 6, we noted the office needs to develop a system to establish fees commensurate with costs.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

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## Background

The Office was established by Article VI, Section 1, of the Montana Constitution. Title 2, chapter 15, part 4, of the Montana Code Annotated (MCA) sets forth the Secretary of State's duties. The office files, stores, maintains, and preserves permanent records of the state and certain public interest records of private citizens. The office publishes the Montana

## **Introduction**

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Administrative Register (MAR) and the Administrative Rules of Montana (ARM).

The Secretary of State serves as chief election officer for the state, maintaining uniformity in the application of the election laws and retaining election records through the Elections Bureau. In addition, the Secretary of State serves as a member of the Board of Land Commissioners and the Board of Examiners.

# Prior Audit Recommendations

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## **Prior Audit Recommendations**

We performed the prior audit of the Office of the Secretary of State for the two fiscal years ended June 30, 1998. The report contained four recommendations. The office partially implemented one and did not implement three of the recommendations. The three recommendations not implemented relate to cash management (discussed on page 5), and fees commensurate with costs and allocation of costs (discussed on page 6).



# Findings and Recommendations

## Deposit of Filing Fees

During the current audit we noted several instances where checks received with document filings were not deposited in the time period required by state law. Section 17-6-105, MCA, requires state agencies to make deposits when the total coin and currency collected exceeds \$100 or total collections exceed \$500. Deposits must be made at least weekly regardless of amount. The law is designed to enhance control of cash, maximize interest earnings, and help reduce the risk of loss or theft of state moneys.

We reviewed a sample of eight deposits totaling \$166,295 made during an 11-month period and noted \$80,692 of the total was not deposited in accordance with state law. According to agency personnel, checks are not separated from the associated documents until the day the document is processed. State law requires the office to return documents to sender within ten days of receipt if the documents do not meet filing requirements. The processing of the documents can take from 1 to 45 days.

The office could separate checks from the supporting documentation and deposit the funds into the treasury immediately. Once the document has been processed, the related revenue could be appropriately distributed on the state's accounting records. For those documents that cannot be processed because of incomplete documentation, the office could send a letter requesting the additional documentation and provide a form to the individual or business to request a refund if necessary.

### **Recommendation #1**

**We recommend the office:**

- A. Deposit money into the state treasury in accordance with section 17-6-105, MCA; and**
- B. Process documents within the time allowed by section 35-2-1109, MCA.**

## Findings and Recommendations

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### **Fees Commensurate with Costs**

The office uses both an Internal Service Fund and an Enterprise Fund to account for activities performed by the office. Services accounted for in the Internal Service Fund include the publishing and distribution of the Administrative Rules of Montana (ARM) and records storage for state agencies and other local governments. The Enterprise Fund activity reflects corporate licensure transactions and Uniform Commercial Code (UCC) filings. Customers of the office include both governmental and non-governmental entities.

Section 17-8-101(6), MCA, states "Fees and charges for services deposited in the internal service fund type must be based upon commensurate costs." Several laws, which allow the office to charge fees related to Enterprise Fund activity, also require fees charged for these services to be commensurate with costs associated with administering the programs.

Currently, the office is allocating costs associated with the administration of these services based on the amount of revenue generated by each fee and not based on the actual cost incurred in providing the service. The allocation of expenditures based on revenue generated assumes the fees were based on related costs when established. Agency personnel stated that the office has not calculated costs to support the current fees charged.

#### **Recommendation #2**

**We recommend the office:**

- A. Implement procedures to determine costs associated with the services it provides.**
- B. Establish fees commensurate with costs in accordance with state law.**



### Compensatory Time

The office employs staff who are considered to be exempt from the Fair Labor Standards Act. This exemption means, among other things, that an exempt employee can earn compensatory time, which is accumulated until used. Compensatory time is earned when an employee works more than 40 hours in a week.

According to ARM 2.21.1812 (10), exempt employees shall not receive a lump sum payment for compensatory time not used at the termination of employment. We noted exempt employees who left the employment of the office were paid for compensatory time balances. The total payout of compensatory time to seven exempt employees was \$5,642.

#### **Recommendation #3**

**We recommend the office comply with state rules and cease paying exempt employees for compensatory time balances upon termination.**

### Payroll Processing

During our audit we noted payroll transactions were not posted to the office's accounting records for up to four months after the payroll had been paid. State accounting policy requires expenditures to be recorded at the time the expenditure is incurred. Office personnel stated problems with the implementation of SABHRS and inadequate internal control allowed payroll transactions to go unposted.

Under Article VIII, Section 14, Constitution of the State of Montana, no money may be paid from the state treasury unless the expenditure is based on appropriation authorized by law. Section 17-8-101, MCA, requires the office's proprietary funds to be appropriated. When the office does not post payroll transactions, the cash is paid from the treasury without attachment to a valid appropriation.

## Findings and Recommendations

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### **Recommendation #4**

**We recommend the office comply with section 17-8-101, MCA, and post expenditure transactions when incurred.**

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### **Accounting Issues**

The following paragraphs describe instances where the office did not record expenditures for purchases and for intangible assets in accordance with state law and accounting policy.

- ▶ In our tests of expenditure transactions, we found computer equipment and software purchases made prior to June 30, 2000, which were not recorded until the following fiscal year. As a result, expenditures for fiscal year 1999-2000 were understated by \$59,777. Section 17-1-102(4), MCA, requires agencies to record all expenditure transactions on the state's accounting system before accounts are closed for the fiscal year-end. According to office personnel, invoices for the purchases were misplaced when received, so expenditures were not processed until the following fiscal year.
- ▶ Over the past several years the office has developed and modified many of its computer systems. These systems are used for such things as voter registration, administrative rule projects, web-based customer access, and Uniform Commercial Code filings. Under state accounting policy, computer software is a long-term intangible asset that should be capitalized and depreciated over the useful life of the software. For the past two fiscal years, the office has expensed the costs incurred in the development of these systems. As a result of this error, expenditures are overstated by \$206,670 and \$341,544 for fiscal years 1998-1999 and 1999-2000, respectively. Fund balance at June 30, 2000, was understated by \$498,640 in the Enterprise Fund and by \$49,574 in the Internal Service Fund. These misstatements caused us to qualify our opinion on the financial schedules beginning on page A-5.

**Recommendation #5**

We recommend the office:

- A. Record all expenditure transactions by fiscal year end in accordance with state law; and
- B. Capitalize software assets as required by state accounting policy.



# **Independent Auditor's Report & Office Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel  
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances and Property Held in Trust, Schedule of Changes in Fund Balance, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Secretary of State for each of the fiscal years ended June 30, 2000 and 1999. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

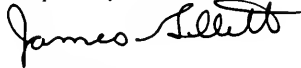
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities, and cash flows.

The office did not properly record transactions related to the capitalization of computer software developed for the office during fiscal years 1998-99 and 1999-00. These recording oversights resulted in an understatement of the ending fund balance for the Enterprise Fund on the Schedule of Changes in Fund Balances of \$206,670 and \$498,640 at June 30, 1999 and 2000, respectively. The Internal Service Fund balance is also understated in fiscal year 1999-00 by \$49,574. Additionally, expenditures and transfers-out on the Schedule of Total Expenditures & Transfers-Out are overstated by \$206,670 and \$341,543 for fiscal years 1998-99 and 1999-00, respectively.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Secretary of State for each of the fiscal years ended June 30, 2000 and 1999, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized flourish at the end.

James Gillett, CPA

Deputy Legislative Auditor

January 24, 2001



OFFICE OF THE SECRETARY OF STATE  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

| FUND BALANCE: July 1, 1999                         | General Fund | Enterprise Fund  | Internal Service Fund | Agency Fund |
|--|--------------|------------------|-----------------------|-------------|
|  | \$ 0         | \$ 956,070       | \$ 94,725             | \$ 0        |
| <b>ADDITIONS</b>                                   |              |                  |                       |             |
| Budgeted Revenues & Transfers-In                   |              | 2,321,515        | 525,901               |             |
| NonBudgeted Revenues & Transfers-In                | 780          | 975              | 150                   |             |
| Direct Entries to Fund Balance                     | (780)        |                  | (6,728)               |             |
| Additions To Property Held in Trust                |              |                  |                       | 371         |
| Total Additions                                    |              | <u>2,322,490</u> | <u>519,323</u>        | <u>371</u>  |
| <b>REDUCTIONS</b>                                  |              |                  |                       |             |
| Budgeted Expenditure & Transfers-Out               |              | 2,358,599        | 639,273               |             |
| NonBudgeted Expenditure & Transfers-Out            |              | (10,654)         | 16,787                |             |
| Prior Year Expenditure & Transfers-Out Adjustments |              | 245              | 769                   |             |
| Reductions in Property Held in Trust               |              |                  |                       | 371         |
| Total Reductions                                   |              | <u>2,348,190</u> | <u>656,829</u>        | <u>371</u>  |
| FUND BALANCE: June 30, 2000                        | \$ 0         | \$ 930,370       | \$ (42,781)           | \$ 0        |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE SECRETARY OF STATE  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

|   | General Fund | Enterprise Fund | Internal Service Fund |
|---|--------------|-----------------|-----------------------|
| FUND BALANCE: July 1, 1998                          | \$ (500)     | \$ 1,056,398    | \$ 108,006            |
| ADDITIONS   |              |                 |                       |
| Budgeted Revenues & Transfers-In                    |              | 2,037,425       | 525,032               |
| Nonbudgeted Revenues & Transfers-In                 |              | 1,887           | 537                   |
| Prior Year Revenues & Transfers-In Adjustments      |              | 588             | (58)                  |
| Cash Transfers In (Out)                             | 500          | 670             |                       |
| Total Additions                                     | 500          | 2,040,570       | 525,511               |
| REDUCTIONS  |              |                 |                       |
| Budgeted Expenditures & Transfers-Out               |              | 2,131,748       | 522,844               |
| Nonbudgeted Expenditures & Transfers-Out            |              | 7,971           | 15,343                |
| Prior Year Expenditures & Transfers-Out Adjustments |              | 1,179           | 605                   |
| Total Reductions                                    | 0            | 2,140,898       | 538,792               |
| FUND BALANCE: June 30, 1999                         | \$ 0         | \$ 956,070      | \$ 94,725             |

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE SECRETARY OF STATE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

|   | General Fund | Enterprise Fund | Internal Service Fund | Total      |
|---|--------------|-----------------|-----------------------|------------|
| <b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>                           |              |                 |                       |            |
| Taxes   |              | \$ 201          |                       | \$ 201     |
| Charges for Services  | \$ 780       | 2,186,054       | \$ 435,459            | 2,622,293  |
| Investment Earnings   |              | 47,253          |                       | 47,253     |
| Sale of Documents, Merchandise and Property                                 |              | 84,088          | 44,725                | 128,813    |
| Miscellaneous   |              | 4,893           | 45,867                | 50,760     |
| Total Revenues & Transfers-In   | 780          | 2,322,489       | 526,051               | 2,849,320  |
| Less: Nonbudgeted Revenues & Transfers-In                                   | 780          | 975             | 150                   | 1,905      |
| Actual Budgeted Revenues & Transfers-In                                     | 0            | 2,321,515       | 525,901               | 2,847,416  |
| Estimated Revenues & Transfers-In   | 0            | 2,050,283       | 444,500               | 2,494,783  |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | 0            | 271,232         | 81,401                | 352,633    |
| <b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b> |              |                 |                       |            |
| Charges for Services  |              | \$ 248,611      | \$ 75,459             | \$ 324,070 |
| Investment Earnings   |              | 27,165          |                       | 27,165     |
| Sale of Documents, Merchandise and Property                                 |              | (5,937)         | 2,725                 | (3,212)    |
| Miscellaneous   |              | 1,393           | 3,217                 | 4,610      |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | 0            | 271,232         | 81,401                | 352,633    |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE SECRETARY OF STATE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

|   | Enterprise Fund | Internal Service Fund | Total        |
|---|-----------------|-----------------------|--------------|
| <b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>                           |                 |                       |              |
| Charges for Services  | \$ 1,928,805    | \$ 436,693            | \$ 2,365,498 |
| Sale of Documents, Merchandise and Property                                 | 85,592          | 42,193                | 127,785      |
| Miscellaneous   | 25,503          | 46,625                | 72,128       |
| Total Revenues & Transfers-In   | 2,039,900       | 525,511               | 2,565,411    |
| Less: Nonbudgeted Revenues & Transfers-In                                   | 1,887           | 537                   | 2,424        |
| Prior Year Revenues & Transfers-In Adjustments                              | 588             | (58)                  | 530          |
| Actual Budgeted Revenues & Transfers-In                                     | 2,037,425       | 525,032               | 2,562,457    |
| Estimated Revenues & Transfers-In   | 1,948,886       | 465,000               | 2,413,886    |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | \$ 88,539       | \$ 60,032             | \$ 148,571   |
| <b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b> |                 |                       |              |
| Charges for Services  | \$ 63,916       | \$ 74,753             | \$ 138,669   |
| Sale of Documents, Merchandise and Property                                 | 1,572           | (17,807)              | (16,235)     |
| Miscellaneous   | 23,051          | 3,086                 | 26,137       |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | \$ 88,539       | \$ 60,032             | \$ 148,571   |

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE SECRETARY OF STATE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

| PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT | Program<br>(Sub-Class)<br>Not Specified | Business &<br>Governmental<br>Services | Total               |
|--|---|--|---------------------|
| Personal Services                                |   |  |                     |
| Salaries   |   | \$ 1,180,446                           | \$ 1,180,446        |
| Employee Benefits                                |   | 333,271                                | 333,271             |
| Personal Services-Other                          | \$ (16,644)                             |  | (16,644)            |
| Total  | <u>(16,644)</u>                         | <u>1,513,717</u>                       | <u>1,497,073</u>    |
| Operating Expenses                               |   |  |                     |
| Other Services                                   |   | 1,032,776                              | 1,032,776           |
| Supplies & Materials                             |   | 109,120                                | 109,120             |
| Communications                                   |   | 120,083                                | 120,083             |
| Travel   |   | 37,598                                 | 37,598              |
| Rent   |   | 142,695                                | 142,695             |
| Utilities  |   | 954                                    | 954                 |
| Repair & Maintenance                             |   | 17,261                                 | 17,261              |
| Other Expenses                                   | 1,788                                   | 78,671                                 | 80,459              |
| Goods Purchased for Resale                       |   | 10,157                                 | 10,157              |
| Total  | <u>1,788</u>                            | <u>1,549,315</u>                       | <u>1,551,103</u>    |
| Equipment & Intangible Assets                    |   |  |                     |
| Equipment  |   | (43,156)                               | (43,156)            |
| Total  |   | <u>(43,156)</u>                        | <u>(43,156)</u>     |
| Total Expenditures & Transfers-Out               | \$ <u>(14,856)</u>                      | \$ <u>3,019,876</u>                    | \$ <u>3,005,020</u> |

EXPENDITURES & TRANSFERS-OUT BY FUND

|   |                 |                  |                  |
|---|-----------------|------------------|------------------|
| Enterprise Fund                                     | \$ (21,736)     | \$ 2,369,927     | \$ 2,348,190     |
| Internal Service Fund                               | 6,880           | 649,949          | 656,829          |
| Total Expenditures & Transfers-Out                  | <u>(14,856)</u> | <u>3,019,876</u> | <u>3,005,020</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out      | (14,856)        | 20,989           | 6,133            |
| Prior Year Expenditures & Transfers-Out Adjustments |                 | 1,015            | 1,015            |
| Actual Budgeted Expenditures & Transfers-Out        | 0               | 2,997,872        | 2,997,872        |
| Budget Authority                                    | 0               | 3,038,534        | 3,038,534        |
| Unspent Budget Authority                            | \$ <u>0</u>     | \$ <u>40,662</u> | \$ <u>40,662</u> |

UNSPENT BUDGET AUTHORITY BY FUND

|                          |             |                  |                  |
|--------------------------|-------------|------------------|------------------|
| Enterprise Fund          |             | \$ 25,837        | \$ 25,837        |
| Internal Service Fund    | \$          | 14,825           | 14,825           |
| Unspent Budget Authority | \$ <u>0</u> | \$ <u>40,662</u> | \$ <u>40,662</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE SECRETARY OF STATE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999

|   | Business &<br>Government<br>Services |
|---|--------------------------------------|
| <b>PROGRAM EXPENDITURES &amp; TRANSFERS-OUT</b>     |                                      |
| Personal Services                                   |                                      |
| Salaries  | \$ 1,088,605                         |
| Employee Benefits                                   | 307,703                              |
| Personal Services-Other                             | 32,462                               |
| Total   | <u>1,428,770</u>                     |
| Operating Expenses                                  |                                      |
| Other Services                                      | 780,147                              |
| Supplies & Materials                                | 122,265                              |
| Communications                                      | 145,579                              |
| Travel  | 20,152                               |
| Rent  | 125,030                              |
| Utilities   | 2,811                                |
| Repair & Maintenance                                | 16,349                               |
| Other Expenses                                      | 32,436                               |
| Goods Purchased For Resale                          | 6,151                                |
| Total   | <u>1,250,920</u>                     |
| Total Expenditures & Transfers-Out                  | <u>\$ 2,679,690</u>                  |
| <b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>     |                                      |
| Enterprise Fund                                     | \$ 2,140,899                         |
| Internal Service Fund                               | 538,791                              |
| Total Expenditures & Transfers-Out                  | <u>2,679,690</u>                     |
| Less: Nonbudgeted Expenditures & Transfers-Out      | 23,314                               |
| Prior Year Expenditures & Transfers-Out Adjustments | 1,784                                |
| Actual Budgeted Expenditures & Transfers-Out        | <u>2,654,592</u>                     |
| Budget Authority                                    | 2,925,770                            |
| Unspent Budget Authority                            | <u>\$ 271,178</u>                    |
| <b>UNSPENT BUDGET AUTHORITY BY FUND</b>             |                                      |
| Enterprise Fund                                     | \$ 216,022                           |
| Internal Service Fund                               | 55,156                               |
| Unspent Budget Authority                            | <u>\$ 271,178</u>                    |

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Notes to the Financial Schedules

## For the Two Fiscal Years Ended June 30, 2000

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### Summary of Significant Accounting Policies

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#### Basis of Accounting

The Secretary of State uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

The office uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

#### Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Accounts are organized in funds according to state law. The office uses the following funds:

## Notes to the Financial Schedules

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### **Governmental Funds**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

### **Proprietary Funds**

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Office Internal Service Funds include state records management and the sale of Administrative Rules of Montana (ARM) to government agencies.

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the office finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Office Enterprise Funds include activity related to the sale of ARM to the public and activity for business and government services such as filing annual reports and articles of incorporation. This fund type also includes activity related to elections administration.

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### **Expenditure Program (Sub-class)**

As part of the implementation of a new accounting system in fiscal year 1999-00, state officials determined that a sub-class designation would identify the program to which an expenditure should be charged. State officials did not require non-budgeted expenditure transactions to be identified to a sub-class. The program designations in the Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2000 are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code non-budgeted accounts with a sub-class code identifying the expenditure program in which the activity occurred. This non-budgeted activity is included in the column titled Program (Sub-Class) Not Specified on the Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2000.



## Office Response

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*Secretary of State  
State of Montana*

MAR - 5 2001

*Bob Brown  
Secretary of State*



*Montana State Capitol  
P.O. Box 202801  
Helena, MT 59620-2801*

March 6, 2001

Mr. Scott Seacat  
Legislative Auditor  
Legislative Audit Division  
P.O. Box 201705  
Helena, Mt 59620-1705

Dear Mr. Seacat:

Thank you for the opportunity to respond to the financial compliance audit report on the Office of the Secretary of State for the two fiscal years ending June 30, 2000.

The financial compliance audit includes five recommendations. For each recommendation, the Office of the Secretary of State concurs with the findings of the audit report. Below, I have provided additional responses to each of these.

- Recommendation #1 (A & B): Compliance with state deposit laws

The Office of the Secretary of State agrees with Recommendation #1, A and B.

Regarding Part A, a cash management system has been developed and will be tested during the week of March 5, 2001, with an expected implementation date no later than March 19, 2001. The process provides for one person who will serve as cashier and perform data entry responsibilities for all checks and cash received by the Secretary of State. Once the data is entered and the corresponding documents have been logged in, the checks and cash will be delivered to the Secretary of State Management Services Bureau, where the accounting will be checked and the deposit will be made. The checks and cash for each day will be data entered each day, and the deposit will be made by the end of each business day.

Regarding Part B, the cash management system is expected to result in a reduction of time and effort on the part of our Compliance Officers. The additional position that is dedicated to data entry will enter additional data including the name of the corporation, address, type of organization, and amount

*Reception: (406) 444-2031 • Business Services Bureau: 444-2665 • Elections Bureau: 444-1732  
Administrative Rules Bureau: 444-2055 • Records Management Bureau (1320 Roseman Avenue): 444-2716  
Fax: 444-2976*

of check included with the submitted documents. The Compliance Officers will be able to access a screen that includes all of the identifying data and merge the data with the appropriate document, certificate, or response letter. The Compliance Officer's processing time is expected to decrease significantly because the identifying information will be readily available and because the system includes a selection of pattern letters.

Additional timesaving is anticipated for Compliance Officers once the Secretary of State is able to offer a number of business registration services on-line through the e-government portal project. The first phase of the system is expected to be functional within the next six months. Businesses will be able to perform business-entity searches and obtain certificates of existence over the Internet. Future services will include the ability to search for the availability of a business name and the ability to reserve a business name. Businesses will also be able to complete the annual renewal of their business registration on-line. Each phase of the portal system will contribute to the reduction of processing time.

The Secretary of State has engaged the services of a process re-engineering consultant to work with staff to find efficiencies in the way we serve our customers. Upon completion of the study, and upon the implementation of targeted efficiencies, we anticipate a significant reduction in the number of days necessary to process documents.

Finally, the Secretary of State has increased the number of customer-service specialists from two to three. These staff members respond to telephone inquiries all day every day. The number of phone calls received each day has increased from approximately 190 calls to 265 calls. Yet the average delay time has decreased from 155 seconds to 87 seconds. We anticipate a reduction in complicated or incorrect filings based on the improved customer-service effort.

We believe the implementation of the cash management system, the resulting efficiencies relative to our compliance effort, the improvement in the use of our customer service resources, and the process re-engineering study will bring the Office of the Secretary of State into full compliance with 17-6-105 MCA and 35-2-1109 MCA.

- *Recommendation # 2 (A&B): Establishing fees commensurate with costs in accordance with state law.*

This administration agrees with the prior administration that issues such as "fees commensurate with costs" are not easily defined in an agency that has internal service fees and enterprise fees, and that provides many services that have no fees. We feel that the legislature must ultimately address the issue with a clear statement of intent.

In order to address the valid concerns of the legislative auditor and the need to decide if fees are commensurate with costs, we are seeking legislation that clarifies legislative intent for this office. We have proposed legislation that requires fees in total be commensurate with costs rather than be commensurate on a fee-by-fee basis.

In addition, the Office of the Secretary of State has engaged the services of a process re-engineering consultant to work with staff to help us better determine our work process and time required to perform services.

- Recommendation # 3: Payment of accumulated compensatory time

The prior administration made the decision to pay earned compensatory time to departing employees. This administration recognizes that state rules prohibit the payment of compensatory time that is not used, ARM 2.21.1812 (10). This office also recognizes that time worked by a state employee may be vested, and there may be an entitlement to compensation under certain circumstances.

- Recommendation 4 & 5: Capitalization of long-term assets and posting of expenditures

On February 20, 2001, the SOS staff attended a meeting with Department of Administration staff to get direction in meeting this requirement. Reviewing MOM II policy 2-1700.25 we have a clear picture of entries to make. Adjustments will be made to the CAFR per Paul Christenson.

The life of the system will be determined by management and IT staff and an amortization schedule developed. Depreciation entries will be made at year-end for the extent of the determined life of the software. Other internal software developments will be reviewed for life expectancy and entries made accordingly.

Future expenditures will be accounted for on the state's accounting system before accounts are closed. Our office is dedicated to providing sufficient training and resources to our Management Services Bureau to insure all state accounting policies are followed to the letter of the law.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bob Brown", with a stylized flourish at the end.

Bob Brown





